

COUNTRY ELEVATORS SHIFT SERVICES TO FIT  
THE NEEDS OF FARMERS

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Country elevators exist to serve farmers. They have traditionally been the point of first assembly for grain sold by farmers. Country elevators have also supplied farmers with needed input supplies. Given this close working relationship, changes in the farm production sector will, sooner or later, be reflected in the products and services offered to farmers by country elevators.

The 1970's were a period of dramatic change in agriculture. Nationally, wheat production increased from 1.4 billion bushels in 1970 to 2.4 billion bushels in 1980; corn sold, rather than fed on the producing farm, climbed from 2.3 to 4.1 billion bushels; and soybean production rose from 1.1 to 1.8 billion bushels (USDA, 1980 and April, 1981). Since the number of farms continued to decline in the 1970's, grain production per grain farm increased dramatically (USDA, 1980).

This increased production per farm was accompanied by changes in the way producers marketed grain. Larger crops led to the purchase of larger combines which led to the purchase of larger trucks to haul grain from the fields. These larger trucks were then used to haul grain longer distances to processors and terminal shipment points (Feedstuff, 1981). Thus, the effective marketing area for direct farmer selling of grain expanded beyond the local country elevator. The concurrent development of unit train shipping of grain allowed inland elevators direct access to low rail rates for shipment of grain to export points (Cargill, Inc., 1979). The number of unit train shippers increased dramatically during the 1970's. These shippers became increasingly dependent on grain producers to satisfy the volume requirements needed to ship unit trains. In conclusion, the existence of unit train shippers in conjunction with farmer ownership of larger trucks increased the competitive pressures on country elevators as buyers of grain.

Changes in production agriculture with respect to production inputs also

occurred during the decade. Overall, the trend toward the greater use of purchased inputs continued. Nationwide, there was a 58 percent increase in the use of agricultural chemicals from 1970 to 1979. During the same period, the use of purchased feed, seed, and livestock rose 15 percent (USDA, 1980). This growth presented country elevators with the opportunity to diversify operations.

To examine the impact on country elevators of the changes in production agriculture, a study was undertaken by researchers at The Ohio State University. While only Ohio country elevators were included in the study, the results should be applicable to other areas of the corn belt.

Data from two surveys, one conducted in 1970, the other in 1980, formed the basis for the analysis. The same 90 grain handling firms surveyed in a 1970 study of the Ohio grain industry were surveyed again in 1980. Data collected included: volume of grain received as well as percent of total income derived from grain merchandising, manufacturing and/or selling feeds, selling farm supplies excluding feed, and providing services. Analysis of the data would allow determination of changes in grain handling operations during the 1970's.

Since interest centered on country elevators, it became necessary to separate them from other grain handling firms. To accomplish this, the following definition was used:

A country elevator is a firm, independent, cooperative, or line, primarily engaged in buying and selling grain, retailing agricultural inputs, and/or providing related services for farmers. It receives more than 50 percent of its grain from farmers and earns less than 50 percent of its income from manufacturing feed (Foltz, 1981).

Since changes over time were being studied, the definition was applied only to the 1970 data. Fifty-four of the ninety grain handling firms qualified as

country elevators.

Usable returns were obtained from 52 of the 54 country elevators. Of these 52, three had gone out of business during the 10 year period (nine others experienced a change of ownership). Consequently, the following results are based on 49 Ohio country elevators.

During the 1970's, average grain storage capacity for the firms surveyed increased from 677 to 991 thousand bushels. During the same period, average annual volume of grain received rose from 1.4 to 2.3 million bushels. This was expected because of the expansion of grain production which occurred during the decade. In Ohio, wheat production rose from 35.9 million bushels in 1970 to 67.1 million bushels in 1980; corn sold off the farm increased from 118.4 to 282.0 million bushels; and soybean production climbed from 68.8 to 135.4 million bushels (Ohio Crop Reporting Service, 1971 and 1980).

Despite the near doubling of grain volume, average country elevator income from grain merchandising as a percent of total income declined from 52 to 45 percent. Of more significance was the increase in elevators receiving less than 30 percent of their total income from grain merchandising from 27 percent of those surveyed to 45 percent. The percentage of firms earning more than 75 percent of their income from grain merchandising increased only slightly, from 24 percent in 1970 to 29 percent in 1980. These figures suggest that while a large number of country elevators were diversifying into other income producing activities, a substantial number remained relatively specialized in grain merchandising.

Associated with grain merchandising are the services of storing and drying grain. Average percent of total income earned from these activities increased from 11 to 14 percent. Thus, the share of total income from all grain handling related activities declined four percent from 1970 to 1980.

Contrary to expectations, unit-train shippers did not necessarily receive a very high percentage of their income from grain merchandising. In 1970, the five country elevators that were unit-train shippers received an average of 65 percent of total income from this activity with the range being 33 to 90 percent. By 1980, the mean had dropped to 40 percent and the range was 8 to 89 percent. Thus, it appears that unit-train shippers branched into other activities.

As a side note, the volume of grain received as a percent of total grain production in the county in which the elevator was located increased from 50 to 54 percent for the unit-train shippers. These figures compare with a decline from 23 to 17 percent for the other 44 country elevators surveyed. Therefore, the findings indicate that unit-train shippers have indeed increased market share at the expense of neighboring country elevators. This tends to support the results of an earlier study conducted by Ohio State researchers who found that the percent of the annual receipts from first handlers received by Ohio country elevators declined from 67 to 53 percent of the total between 1970 and 1977 (Hennen, et al., 1980).

Besides grain handling activities, country elevators have traditionally received income from manufacturing and/or selling complete feeds and manufacturing and/or selling feed ingredients. During the 1970's, percent of total income derived from the manufacture and sale of complete feeds to farmers rose from three percent in 1970 to ten percent in 1980. The corresponding values for manufacturing and/or selling feed ingredients were eight and two percent. This change in mix can be attributed to the increasing specialization of livestock farms. For farmers not producing enough grain to meet feeding needs and those not able to manufacture feed on the farm, purchasing complete feed is a viable alternative. Livestock feeders manufacturing their own feed

buy feed ingredients.

The relative constancy of percent of total income from feed related activities (ten and eleven percent) was surprising given the large decline in livestock production in Ohio. From 1970 to 1979, cattle marketed decreased 48 percent; hogs, 25 percent; sheep and lambs, 58 percent; and turkeys, 29 percent (Henderson and Barr, 1981). Of livestock commonly produced on Ohio farms, only broiler production increased. In the face of this decline in livestock numbers, Ohio country elevators have remained very active in the manufacture and sale of complete feeds and feed ingredients.

It was interesting to note that two of the reporting firms had increased earnings from feed related activities to more than 50 percent of total income by 1980. Consequently, they no longer met the country elevator definition. This fact in essence means that five of the fifty-four country elevators surveyed exited the business.

A second major source of non-grain handling income for country elevators has been the retailing of farm supplies. Since the selling of feed was combined with feed manufacturing, the following discussion includes only the selling of non-feed supplies.

The most significant finding was the fact that 78 percent of the country elevators surveyed were selling non-feed farm supplies in 1980 compared to less than half in 1970. During the 1970-80 survey period, percent of total income derived from the sale of non-feed farm supplies, on average, rose from 17 to 25 percent. Fertilizer accounted for about 12 percent of total country elevator income in 1980, up from 9 percent in 1970. Sales of non-feed, non-fertilizer farm supplies such as seed, equipment, petroleum supplies, etc. increased from 8 to 13 percent.

The data collected was subjected to a statistical analysis to determine what changes are likely to occur during the 1980's in the Ohio country elevator

industry. This analysis revealed a continuation of the trends observed during the 1970's: a decline in percent of total income earned from grain merchandising, little change in the percent of income from manufacturing and/or selling feed or feed ingredients, and an increase in the percent of income from selling non-feed production inputs.

In summary, the trends toward a smaller number of larger, more specialized agricultural producers, who sell grain directly to processors and shippers and who rely heavily on purchased inputs, have necessitated changes in the mix of activities performed by Ohio country elevators. Despite an increase in the volume of grain received during the 1970's, income derived from grain merchandising declined as a percent of total income. Meanwhile, percent of total income earned from selling non-feed production inputs grew. During the same period, percent of total income from manufacturing and selling feed or feed ingredients stayed constant despite a substantial decline in the Ohio livestock industry.

Ohio country elevators did change during the 1970's as the needs of their farmer/customers changed. The production sector will continue to evolve and so will the country elevator industry. The trends of the 1970's can be expected to continue into the 1980's.

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